

TRC (Utah Tax Review Commission)
Summary of Review of Oil and Gas Severance Taxes
Summary of Legislative Action Regarding Oil and Gas Severance Taxes

2002 - 2008

Interim Period/ General Session	Highlights of TRC Study and Review/Legislative Action	Final TRC Action
2002 Interim	<p>As required by Section 59-5-102, the TRC studied several aspects of state oil and gas severance taxes including: (1) the tiered rate structure; (2) the stripper well, wildcat well, and development well exemptions; (3) the tax credit for recompletion and workover expenses; and (4) the tax rate reduction for an enhanced recovery project.</p> <p>As part of this study, the TRC retained the services of Dr. Sheby Gerking, University of Central Florida, who had developed an econometric model of the effects of state oil and gas severance taxes for the Wyoming Legislature. Dr. Gerking concluded that eliminating the tiered rate structure, exemptions, and credits would increase the effective severance tax rate from 2.7 percent to 5 percent. This hypothetical increase in the effective severance tax rate would reduce exploration, decrease production, and increase oil and gas severance tax revenue.</p>	<p>The TRC voted 7 in favor, 3 opposed and 4 absent to maintain the tiered rate structure and exemptions, remove the repeal date for the recompletion/workover credit and study the issue again in five years. The TRC adopted two bills: "Fees on Oil and Gas" and "Oil and Gas Severance Tax Amendments."</p> <p>The TRC also received written and verbal testimony from the Utah Petroleum Association, Mr. Tom Bechell, attorney and independent petroleum producer, Duchesne County Commission, Inland Oil Company, Wind River Resources, Division of Oil, Gas, and Mining, Shenandoah Energy, School and Institutional Trust Lands Administration, and the Utah</p>

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	<p>State Office of Education. These organizations told the TRC that the present oil and gas severance tax is working as intended to conserve resources, protect the environment by promoting fewer wells, reduce waste, and ensure Utah's national and international competitiveness in the exploration and production of oil and natural gas. The TRC was also told by representatives of the State Office of Education that royalty payments from oil and gas production on school trust lands are an important source of revenue to the School Trust Fund.</p>	
2003 General Session	<p>Legislature enacted HB 29, "Fees and Taxes on Oil and Gas," which modified provisions related to oil and gas conservation fees, quarterly payments of oil and gas severance taxes, and repealed obsolete language and H.B. 28, "Oil and Gas Severance Tax Amendments," which removed the sunset date for the tax credit for recompletion and workover expenses, allowed a taxpayer to carry forward the credit, and required the TRC to study the oil and gas severance tax in 2008.</p>	
2004 General Session		<p>Legislature enacted S.B. 191, "Oil and Gas Related Taxes and Fees." The bill addressed the imposition of the severance tax on oil and gas including how the severance tax and fees are calculated, severance tax rates, the valuation of oil and gas for severance tax purposes, and the filing of required statements. The bill also required the State Tax Commission to conduct a study and report to the Revenue and Taxation Interim Committee and the Utah Tax Review Commission.</p>

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2004 Interim	<p>At its October meeting, the TRC received a report from the Utah State Tax Commission on effective oil and gas severance tax rates. This report was required under 2004 General Session SB 191.</p> <p>At its November meeting, the TRC reviewed the rates and bracket structure for oil and gas severance taxes and the feasibility of increasing tax rates on fixed resources.</p>	<p>The TRC requested that the following information be presented at a future meeting:</p> <ul style="list-style-type: none"> (1) a comparison of production costs in Utah and other oil and gas producing states; (2) how other states define the oil and gas severance tax base; (3) oil and gas severance tax rates in other states; (4) Utah production amounts by size of company; (5) a comparison of effective tax rates between states; and (6) whether to deposit oil and gas severance tax revenues into a permanent fund. The TRC also adopted a motion to recommend to the Legislature that severance tax revenue be used only for one-time expenditures or placed in a reserve account.
2005 General Session	The Legislature considered, but did not adopt, S.B. 63, "Severance Tax Amendments," which would have allocated a portion of state oil and gas severance tax revenues to oil and gas producing counties.	

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2005 Interim	<p>The TRC continued its review of the issues raised at its November 2004 meeting.</p> <p>The TRC received reports from Dr. Shelby Gerking on comparison of effective tax rates on oil and gas production in Utah and nine other states and an analysis of Dr. Gerking's report prepared by Dr. Hal Heaton, BYU, at the request of the Utah Petroleum Association. The TRC also reviewed information on drilling costs, sources of revenue for oil and gas producing counties, and received testimony from the Utah Petroleum Association, ConocoPhillips, Questar, Duchesne County Commission, and the Uintah County Commission.</p>	<p>At its August meeting, the TRC adopted two motions: (1) that all or part of the revenue from the severance tax on oil and gas be deposited into a trust fund; and (2) that the TRC review the allocation of oil and gas impact fees to ensure they are allocated to counties that are actually impacted.</p>
2006 General Session	The Legislature considered, but did not adopt, S.J.R. 2, "Resolution Enlarging Revenues and Assets in State Trust Fund," and S.B. 202, "Use of Oil and Gas Tax Revenues," that would have established a constitutional trust fund for oil and gas severance tax revenues and a funding mechanism for the trust fund.	

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2006 Interim General Session	<p>At its May meeting, the TRC adopted a motion requesting that the Governor, in preparing his budget recommendations for fiscal year 2007-08, set aside the amount of revenue from state severance taxes on oil and gas that would have been deposited in the state trust fund had 2006 General Session S.J.R. 2 been approved by the Legislature and the electorate and 2006 General Session S.B. 202 been enacted into law.</p> <p>The TRC reviewed the findings and recommendations of the Natural Resources Extraction Impact Working Group.</p>	<p>At its October meeting, the TRC voted to recommend "Resolution Regarding Permanent State Trust Fund" and "Use of Oil and Gas Revenues."</p>
2007 General Session		<p>Legislature enacted S.J.R. 2, "Resolution Regarding Permanent State Trust Fund," that amended the Utah Constitution to broaden the sources of revenue that may be deposited into the permanent state trust fund.</p> <p>Legislature enacted S.B. 18, "Creation of Severance Tax and Infrastructure and Economic Diversification Accounts," which provided \$20,000,000 of one-time money to the Severance Tax Holding Account and provides that the money retained in the Severance Tax Holding Account be deposited into the permanent state trust fund if S.J.R. 2 is approved by the electorate.</p> <p>Legislature enacted H.B. 87, "Severance Tax Related Amendments," that repeals the exemption on the first \$50,000 of gross value for each oil and gas well. H.B. 87 also made other changes to the Uintah Basin Revitalization Fund and the Navajo Revitalization Fund.</p>

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2007 Interim	The TRC continued its review of establishing an ongoing source of severance tax revenue to be deposited into the permanent state trust fund.	At its November meeting, the TRC voted to recommend "Severance Tax Amendments."
2008 General Session	The Legislature adopted H.B. 58, "Severance Tax Amendments." This bill provided that any oil and gas severance tax revenue that exceeds \$71 million and any mining severance tax revenue that exceeds \$27.6 million be deposited into the permanent state trust fund. The bill also modifies uses of the trust fund earnings.	